

## **BPA Response to Snohomish's Cost Benefit Study:**

*"Executive Summary: Study of Costs, Benefits and Alternatives to Grid West"*

Henwood Energy Services, September 13, 2004

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### **Summary Response – 10/5/04**

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- *We believe that this study is premature and hence not very informative* – the appropriate time to assess Grid West's costs and benefits is after the basic market design and cost drivers have been identified and after we develop a governance structure that captures an effective cost-management philosophy. The Regional Representatives Group (RRG) is focused on producing this meaningful analysis of Grid West risks and rewards; the analysis is due in the spring of 2005, before deciding whether to seat a developmental board and long before any parties must commit to participate in Grid West operation.
  - *BPA strongly disagrees with Henwood's Grid West cost estimate.* Their estimate is based on an average of costs/MWh of other RTOs. This is not an appropriate calculation as Grid West will not have the financial rights markets, LMP, retail access or similar features which have caused significant cost escalations in other RTOs. *We have good reason to believe we can run Grid West at costs equal to or less than the least expensive RTO out there, because of the markets we are designing and the benefits we can glean in learning from other RTOs' mistakes.*
  - *BPA needs to see an explanation of Henwood's methods, data, and assumptions* before we can thoroughly verify or critique its results with respect to their modeling of benefits. To date we have only seen 3 pages explaining their assumptions and nothing explaining their methods or describing their data bases. Their benefit results cannot be validated based on so little information.
  - *The Henwood benefit analysis only examines a small portion of potential benefits.* The study does not seem to be based on any close examination of Grid West design. Based on our understanding of Henwood's model, they were not able to measure the potential benefits associated with: improved system reliability, transmission planning, reduced regulation requirements, more efficient long term generation siting, reduced contract path constraints, and delayed transmission construction.
  - *BPA's is actively pursuing a well-tailored estimate of Grid West benefits and costs* through its efforts to design and understand Grid West services and governance structures. We:
    - Joined the Filing Utilities and the RRG in employing The Structure Group to help design and estimate the cost of Grid West functions.
    - Employed NAPA to help us understand governance structures and how they might impact costs.
    - Participated actively on the RRG Risk Reward group assessing existing problems, reviewing old studies, and analyzing costs and benefits.
    - Plan to conduct two assessments of Grid West benefits and costs:
      - A preliminary analysis prior to a spring 2005 decision on whether to seat a Grid West Developmental Board ; and
      - A final detailed analysis prior to any decision on whether to sign a transmission agreement that would allow Grid West to begin operations.
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